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Dear Angelita,

Moving to reliable next-day switching: Consultation on a target operating model

Further to your consultation on a Target Operating Model (TOM) to achieve reliable next day switching, please find below our response to the specific questions you ask.

As noted in our previous response to your earlier consultation on next day switching, we remain supportive of any proposals that will improve customer switching experiences.¹ However, despite assurances from Ofgem that previous consultation responses have been considered in developing the TOM, we are disappointed that many of the questions and concerns we raised in our previous response(s) do not appear to have been satisfactorily addressed within this consultation document. Our response to the questions posed in the consultation focus upon these in more detail.

Question 1 – Do you agree with the requirements set out in the TOM?

We do not consider the requirements set out in the TOM will achieve faster switching for gas customers than is currently the case. The TOM in its current form is likely to cause additional cost and delays to processes that are already in place. The industry has recently invested around £60m to ensure these systems are state of the art, fit for purpose and have been future proofed for the industry.

In our view, Ofgem's proposals as they stand will not necessarily lead to simplification and could result in more complexity around industry flows with as many as 3 central service providers. Switching is already achieved in the gas industry with a single agent. There is, therefore, little or no benefit in moving from one current single agent to another. We consider the fastest and cheapest way to achieve next day switching in the gas market is to undertake this activity via Xoserve and the current infrastructure/systems that are already in place, although we note there may be benefits to suppliers in dealing with a single gas and electricity switching agent for dual fuel customers.

¹ "Consultation on Ofgem's proposals for moving to reliable next day switching", SGN response, 11 August 2014.

We have previously expressed our concerns to Ofgem about the number of various workstreams that are currently being undertaken at the same time across the gas industry, and that potentially impact upon customer switching activity. Examples include the Funding Governance and Ownership (FGO) review of Xoserve and Project Nexus which will cost in the region of £60m to implement. This spend is for significant investment in the future of gas settlement under Xoserve. If the DCC will also be undertaking settlement activity then this would not be efficient spend from a consumer perspective.

We would strongly recommend that Ofgem should clearly illustrate how these various workstreams interact with each other, and with the purpose being to ensure that the industry and ultimately gas customers are not paying more for the services they currently receive. We would therefore welcome further demonstration from Ofgem of how these major projects link together to ensure there is no duplication of services being provided, and that responsibilities for the delivery of specific services by industry participants can be better defined. For example, the FGO review is currently reviewing all Uniform Network Code (UNC) obligations around Xoserve activities as these feed through to the agency services agreement and hence future funding. If a majority of these obligations will be transferred to the Data and Communications Company (DCC) in future, this current and very time consuming activity may be unnecessary.

From our experience to date, this would be aided by closer working relationships between the Smarter Markets and Smarter Grids and Governance teams within Ofgem.

Question 2 – Is our description of the requirements sufficiently comprehensive to progress the design of our reforms during the next phase of the programme?

We consider the Central Registry Service (CRS) TOM proposals do not sufficiently identify the scope and the scale of licence and industry code amendments that are likely to be required. We would expect at this stage for the programme to identify the likely changes to the regulatory framework, and this would enable us to have more certainty as to what our obligations will be and whether these are appropriately balanced with the obligations of other parties operating under licence. This is important because incorrectly allocating obligations on parties to facilitate the desired next day switching processes would result in unnecessary complexity and cost to the industry and our customers.

More information is required around the central registration activities and their scope in order to correctly shape the FGO review. For example, the TOM states the DCC will hold data for settlement but it is not explained whether they will carry out this activity or whether this will stay with Xoserve. It is also not clear how supplier versus shipper switching will function. Many of the shipper/supplier activities currently performed by Xoserve (such as switching and AQ review) could move to the DCC in future. Under this scenario, Xoserve will only be performing GT activities and it would be inappropriate for shippers to fund these functions.

Ofgem is currently requiring gas transporters to undertake a FGO review and which has established that the central agent should be a not for profit, cooperative model. The proposal under the TOM is that the agent should be a private, profit making entity. Therefore, the two Ofgem approaches appear to be contradictory in terms and will deliver opposing outcomes with a lack of clarity on the preferred target model for the central agent. These inconsistencies may preclude the use of a potentially readymade, central solution to act as the central agent for gas switching activities (and potentially for electricity as well) and this will be to the detriment of customers by preventing a faster and more cost effective solution.

Question 3 – Are there any additional requirements that should be captured in the TOM?

It is disappointing to note Ofgem intends to appoint the DCC under licence to the role of providing a central registry service without undertaking a robust cost benefit analysis. As we have noted previously, the option of progressing with next day switching will have significant impacts on the industry, and appropriate scrutiny and controls will need to be applied to ensure that customers do not experience significant increases in the costs of providing an effective switching service. Ofgem must be able to demonstrate to customers that the services provided by the DCC are procured in a transparent and efficient way to ensure maximum benefit to all stakeholders.

We consider the DCC's priority should be to establish the smart meter communications system. Care will need to be taken to ensure any service provider, including the DCC, is able to resource, manage, facilitate and implement multiple major projects of this nature at the same time and to the standards required. Failure to do so will reflect poorly upon Ofgem and the industry as a whole.

Thank you again for the opportunity to provide you with our views on your latest consultation, and we trust our comments will be useful in improving the TOM to achieve a more effective mechanism for delivering next day switching to customers as efficiently as possible.

Should you require any further information with regards to our response then please do not hesitate to contact myself at paul.mitchell@sgn.co.uk.

Yours sincerely,

Paul Mitchell
Regulation Manager